

-- delivered via e-mail --

P984238

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June 22, 1998

**Freddie  
Mac**

Secretary  
Federal Trade Commission  
Room H-159  
6<sup>th</sup> Street and Pennsylvania Avenue, NW  
Washington, DC 20580

*RE: Year 2000 Consumer Issues – Comment, FTC File No. P984238*

Dear Sir or Madam:

The Federal Home Loan Mortgage Corporation ("Freddie Mac") appreciates this opportunity to comment on the May 6, 1998 notice<sup>1</sup> issued by the Federal Trade Commission ("the Commission") on the potential impact on consumers of computer problems caused by the Year 2000 date change.

Freddie Mac is a stockholder-owned corporation established by Congress in 1970 to create a continuous flow of funds to mortgage lenders in support of home ownership and rental housing by creating and maintaining a national secondary mortgage market. Freddie Mac does not originate mortgages or otherwise transact business directly with borrowers. Instead, Freddie Mac purchases mortgages from lenders and packages them into securities that are sold to investors. This benefits consumers by ensuring that a stable supply of low-cost mortgages and affordable rental housing is available for families in every type of neighborhood all across America. Over the years, Freddie Mac has opened doors for one in six homebuyers in America.<sup>2</sup>

Freddie Mac's business operations rely heavily upon computer systems and software, so we began actively preparing for the Year 2000 date change in 1995. Freddie Mac's top corporate priority is ensuring that our housing finance business will continue into the new millenium with integrity and without interruption. This ensures, in turn, that we will continue to fulfill our public mission of maintaining a steady supply of affordable home mortgage funds for American families. As we explain in this letter, Freddie Mac's efforts have a twin focus: first, making certain that our own computer systems and applications

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<sup>1</sup> 63 Fed. Reg. at 25045.

<sup>2</sup> More information about Freddie Mac may be obtained online at <http://www.freddiemac.com>. For more information about how Freddie Mac benefits consumers, see *Financing America's Housing: The Vital Role of Freddie Mac*, available online at [http://www.freddiemac.com/function/fm-news/fm-rpts/priv-rpt\\_rpthome.htm](http://www.freddiemac.com/function/fm-news/fm-rpts/priv-rpt_rpthome.htm).

will accommodate the Year 2000 date change, and second, working closely with key business partners and government entities on industry preparedness.

### **Freddie Mac's Internal Year 2000 Preparations**

Virtually every key aspect of Freddie Mac's business depends upon computer systems and software that must be able to accommodate the Year 2000 date change. These key business areas/activities include: mortgage purchases; mortgage-backed security issuance, payment, and disclosure; mortgage portfolio management; debt issuance or funding management; and financial reporting. Year 2000-related computer failures in one or more of these areas have the potential to create delays and disruptions in our business operations. In the extreme, serious disruptions could hinder our ability to purchase mortgages or issue securities. The result of this would be to reduce the availability of mortgage credit and/or increase its cost, both of which would harm consumers. For these reasons, Freddie Mac's top corporate priority is ensuring our readiness for business in the Year 2000 and beyond. We will be ready and able to continue fulfilling our public mission in the new millennium.

Freddie Mac's extensive readiness efforts are guided at the strategic level by a Year 2000 management steering committee. A Year 2000 program office, established in 1995, is responsible for corporate-wide oversight of and reporting on our efforts. In addition, each Freddie Mac division has a Year 2000 project officer and project manager responsible for preparing and implementing a Year 2000 readiness plan for their business area.

Freddie Mac is currently modifying all internal computer systems and applications as well as external electronic data links to ensure that date-sensitive information can be properly recognized and processed. Freddie Mac expects to have all internal systems ready for the Year 2000 date change by the end of 1998. This will permit us to spend 1999 conducting systems tests, including tests with our customers.

Attached for your information is Freddie Mac's Year 2000 Readiness Statement, which describes in detail our internal efforts to ensure our computer systems and software applications are ready for the Year 2000 date change.<sup>3</sup>

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<sup>3</sup> This document also is available on Freddie Mac's Web site at <http://www.freddiemac.com/function.y2k.html/y2kred.htm>

## **Freddie Mac's External Efforts**

Freddie Mac's extensive internal efforts distinguish us as an industry leader in Year 2000 preparedness. However, we are aware that our business continuity is dependent not only on the Year 2000 readiness of our own computer systems, but also on the readiness of the systems of our business partners, including mortgage lenders, securities dealers, institutional counterparties in securities and derivatives transactions and data vendors. Accordingly, Freddie Mac plays a leadership role in industry-wide preparation and testing efforts, and we are partnering with certain federal government Year 2000 efforts.

As mentioned above, Freddie Mac does not originate mortgages or otherwise transact business directly with borrowers. Instead, Freddie Mac purchases mortgages from lenders ("Seller/Serviceirs") who also service these mortgages.<sup>4</sup> Freddie Mac provides support and encouragement for Seller/Serviceirs' Year 2000 readiness efforts. Our corporate web site and several customer publications address our requirements for Seller/Serviceir readiness and provide Year 2000 information resources. In addition, we are distributing Year 2000-ready versions of Freddie Mac software tools and applications (scheduled for completion by the end of the third quarter of 1998).

In Seller/Serviceir Bulletin 98-1, dated January 1998, Freddie Mac issued our requirement that Seller/Serviceirs achieve Year 2000 readiness by December 31, 1998. Generally, our requirements provide that Seller/Serviceirs be able to furnish Freddie Mac with timely, complete and accurate data on mortgages delivered to Freddie Mac after January 1, 2000. Specifically, Freddie Mac requires that by the end of 1998 Seller/Serviceirs have

- Reviewed and reprogrammed or replaced, as necessary, all key systems and processes that support their ability to meet data accuracy requirements
- Tested all key internal systems and processes that support delivery of timely and accurate data
- Installed and tested all Year 2000-ready software provided by Freddie Mac and confirmed that it works properly with all key internal systems and processes and relevant external interfaces
- Identified all key trading partners and confirmed that they can support the Seller/Serviceir's ability to meet Year 2000 readiness requirements
- Put adequate controls in place to identify processing or data errors

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<sup>4</sup> Servicing involves collecting and remitting to Freddie Mac borrower payments, administration of escrow accounts used to pay insurance and taxes, and other administrative activities relating to the mortgage.

- Developed business contingency plans for processing or data errors

As part of Freddie Mac's plan to ensure that our Seller/Serviceers and their trading partners are making progress during 1998 and are ready by year-end, we also may require them to submit Year 2000 development and testing plans to us for review, participate in audits to verify compliance with our requirements, and participate in Freddie Mac tests to determine whether system updates were made correctly.

The requirements in Bulletin 98-1 are designed to conform to Year 2000 preparation guidelines for federally regulated depository institutions issued by the Federal Financial Institutions Examination Council (FFIEC).<sup>5</sup> If adhered to, the FFIEC guidelines should maintain industry integrity and safeguard consumers. By backing the FFIEC guidelines, Freddie Mac lends its active support to a key industry initiative and avoids placing additional, unnecessary burdens on our Seller/Serviceers as they prepare for the Year 2000.

In June 1998, Freddie Mac issued Bulletin 98-3, which announced that in 1999 Freddie Mac will provide Seller/Serviceers with the opportunity to test their interfaces with key Freddie Mac products and business processes. Additionally, Bulletin 98-3 requires that by January 31, 1999, Seller/Serviceers confirm with Freddie Mac their Year 2000 readiness.

Copies of Bulletins 98-1 and 98-3 are enclosed.<sup>6</sup>

We also note that though Freddie Mac does not work directly with mortgage borrowers, our efforts to help Seller/Serviceers will directly benefit borrowers. Year 2000-related computer breakdowns could result in such problems as Serviceers' failures to record receipt of borrower mortgage payments or failure to disburse funds from escrow accounts to pay insurance premiums or real estate tax bills. By meeting our requirements, Seller/Serviceers should have all key mortgage processes ready for the Year 2000. Compliance will minimize the potential for business disruptions that could inconvenience or harm consumers.

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<sup>5</sup> The FFIEC's Year 2000 guidelines are available online at <http://www.ffiec.gov/y2k/>.

<sup>6</sup> These bulletins also are available online at <http://www.freddiemac.com/function/y2k/seller/index.html#commit>

Freddie Mac is also focused on ensuring our ability to function smoothly with our financial market partners in the Year 2000 and beyond. We have adopted a risk-based approach that focuses on our "critical" processes and those external parties that support these processes. "Critical" financial market systems include all internal systems that support security issuance, disclosure, payments and portfolio management. We will devote extra attention to ensuring the smooth functioning of these systems through the Year 2000 rollover.

Due to the interdependency of financial market systems, we also have adopted a comprehensive approach to verifying our linkages with external parties in the financial markets. First, we will participate directly in industry tests sponsored by the Federal Reserve, Participants Trust Company (PTC) and Mortgage Backed Securities Clearing Corporation (MBSCC). In addition, Freddie Mac will conduct tests with critical financial market partners to ensure our systems and linkages that support mortgage-backed security issuance, payment and disclosure are Year 2000 ready. We also will monitor the participation of key securities dealers in tests sponsored by the Securities Industries Association.

Freddie Mac's industry involvement includes active participation in the Mortgage Bankers Association's (MBA) Year 2000 Inter-Industry Work Group, whose membership includes a cross-section of lenders, third-party vendors, government agencies, investors and others. This work group, formed in 1997, serves as an industry resource on Year 2000 planning and has laid the foundation for industry-wide testing to begin in 1999.

Freddie Mac also is participating in the President's Year 2000 Conversion Council, established earlier this year by President Clinton to coordinate the federal government's Year 2000 efforts.

## **Public Workshops**

The Commission is considering holding one or more public workshops to discuss the issues raised in its Notice. Freddie Mac would be pleased to participate in a workshop relating to financial services issues.

Freddie Mac's comments on Year 2000 consumer issues  
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## **In Conclusion**

The Year 2000 date change poses a critical challenge for the mortgage industry, and the industry is rising to the challenge. Freddie Mac has made readiness for the Year 2000 our top corporate priority. We will be prepared to continue fulfilling our public mission in the new millennium. In addition, we are working with key industry and government entities to achieve mortgage industry preparedness for the Year 2000.

Thank you again for the opportunity to comment on this important issue. Please do not hesitate to contact us if we may be of further service.

Sincerely,

Jean Steele  
Vice President  
Year 2000 Program Office

enclosures

## ***Year 2000 Readiness***

*May 1, 1998*

The Year 2000 presents all businesses with the challenge of ensuring that systems and processes will function smoothly as we move into the 21<sup>st</sup> century. Since 1995, Freddie Mac has been working diligently to ensure that as the new millennium approaches - - and then passes - - our ability to provide exceptional service to our customers, investors, shareholders and business partners will not be disrupted.

This readiness statement is an outline of Freddie Mac's high-level strategy and goals for meeting the challenges posed by the century change. We start first with a description of our strategy for meeting this challenge, with an emphasis on where Year 2000 readiness fits within our corporate priorities. We then provide our tactics for implementing our Year 2000 strategy. In the tactics, we focus on the steps we will take to safeguard our processes and outline our expectations for our business partners.

As with the implementation of any strategy, we may alter specific tactics as we learn from our business partners and through the implementation process itself. As we do, this readiness statement will be updated to reflect any significant changes.

### **Corporate Direction**

Maintenance of investor and customer confidence in connection with the Year 2000 rollover is our number one priority. From the Board of Directors through each business unit, Freddie Mac employees are focused on the Year 2000 problem and are actively engaged to achieve readiness. A state of Year 2000 "readiness" has been achieved when systems can correctly handle dates occurring before, during and after the year 2000.

Our Year 2000 plans and strategy are shaped, implemented and reviewed through the following two entities:

**Year 2000 Coalition:** This group, which consists of senior officers from each business area, is the strategic driver of our Year 2000 effort. The Coalition facilitates information sharing, decision-making, business updates and best practices throughout the corporation. Each month, the Coalition meets with our Chief Operating Officer and Chief Financial Officer to address cross-divisional solutions, resource allocation, strategic decisions and to assess overall Year 2000 readiness. The Coalition reports quarterly to the Chief Executive Officer and the Board of Directors on risks, decisions, recommendations and the status of our Year 2000 readiness.

**Year 2000 Program Office:** Established in 1995, the Program Office's full-time staff coordinates corporate-wide planning, documentation, implementation and reporting of tactical Year 2000 readiness measures. Program Officers and Program Managers from each business area are responsible for the preparation and implementation of systems readiness measures in their areas.

In addition, through the Year 2000 we've assigned a senior executive to focus exclusively on the operational integrity of our "critical" business processes. "Critical" processes are those that impact

- Mortgage purchases
- Mortgage-backed security issuance, payments or disclosure
- Portfolio management
- Debt issuance or funding management
- Financial reporting to investors, shareholders or regulators

Year 2000 risk management is integrated in each division of Freddie Mac and monitored by division controllers. Business and information systems staff identify key external party linkages, map processes to identify potential weak links, assess risks and develop readiness and contingency plans. Progress on Year 2000 assessment and readiness is regularly reported to each division's senior management. The Year 2000 Program Office coordinates cross-divisional tactics and our internal auditors review divisional Year 2000 efforts.

Lastly, in 1998, Year 2000 readiness was formally added to Freddie Mac's Corporate Objectives. As a Corporate Objective, Year 2000 efforts receive priority in resource allocation, and both management and employee compensation is directly linked to progress toward fulfilling our Year 2000 objectives.

## **Resources**

We anticipate corporate-wide expenditures ranging between \$50 million to \$75 million to realize Year 2000 readiness. Approximately \$10 million of the total amount was incurred last year. Year 2000 readiness costs will not be material to our earnings, capital or liquidity over the next two years, and cost information will be updated quarterly in our Information Statement Supplements, which are available under the "Shareholders" link on our website at [www.freddiemac.com](http://www.freddiemac.com).

We believe the users most familiar with our systems, trading partners and transactions -- our employees -- should do the testing and verification. That's why we are relying primarily on internal staff to achieve readiness and are redirecting internal resources to meet our Year 2000 objectives. With the aggressive steps we have taken to recruit and retain qualified personnel, we do not anticipate that contracts for additional Year 2000 personnel will be necessary after 1998.

## **Year 2000 Readiness Oversight**

Our internal auditors review three levels of our Year 2000 efforts:

- (1) Our "critical" processes
- (2) The preparation and maintenance of Year 2000 testing facilities
- (3) New systems development

In addition, internal auditors examine Year 2000 implementation during regularly scheduled audits, participate in Year 2000 Coalition meetings and report quarterly to the Board of Directors. Arthur Andersen LLP, our external auditor, has reviewed our Year 2000 plans and has coordinated audit coverage with our internal auditors.



We also report quarterly on our progress to the Office of Federal Housing Enterprise Oversight (OFHEO). In November 1997, OFHEO stated that, based on its examinations to date, we are proceeding with acceptable plans and implementation of those plans is on schedule. In addition, OFHEO will evaluate our contingency plans.

## Assessment

We completed a corporate-wide assessment of hardware, software, networks, processing platforms, and customer and vendor interdependencies in 1997. These and other aspects of our Year 2000 readiness status, including business continuity planning and trading partner readiness, will be regularly reassessed through the Year 2000.

However, our greatest risk is not internal, and it does not flow from a single entity or group of external partners. Our greatest risk arises from the interdependencies of the financial system. We are carefully mapping the flow of funds and data between Freddie Mac and our critical external parties to identify and plan for the potential failure of links in the mortgage finance system.

## Methodology

Our Year 2000 solutions are based on a variety of standard methodologies, such as windowing, replacement, upgrade and retirement. We have also internally developed innovative solutions for our unique business systems. As our first step, we issued a requirement that all new systems be Year 2000 ready and plan to terminate most products that will not be Year 2000 ready. In addition, we track vendor products that we anticipate may not be ready so that we can institute corrective measures in a timely manner.

To make current systems ready, we are using a "windowing" methodology. That means we will accept 2-digit or 4-digit years for most incoming data, unless a single format is specified in a software release. Generally, our legacy systems will use a 2-digit year and rely on windowing. Our new systems will use a 4-digit year, but still use windowing to interpret incoming 2-digit year dates.

Also, our Year 2000 Program Office has inventoried widely accepted Year 2000 test dates and many business-specific dates that we will test. We are currently expanding our repository of testing scenarios to include dates important to our investor and dealer communities and other third-party service providers.

*With a windowing methodology, two windows are established to determine the century. Our general guidelines interpret two-digit numbers from 00 through 50 as a year in the 21<sup>st</sup> century, and 51 through 99 in the 20<sup>th</sup> century. For example, our systems will interpret 03/01/35 as March 1, 2035, and 07/09/82 as July 9, 1982.*

## Internal Systems Renovation

We have identified systems that we will renovate or replace based on strategic or operational risk factors, resource availability and the importance of improved future performance. Renovation and replacement of existing systems will be completed by December 31, 1998. Testing of completed systems is well under way, although it may extend into early 1999. However, we will retire all discontinued systems no later than the 2nd quarter of 1999. As of March 31, 1998, we had completed 70 percent of internal system renovation and testing.

New systems that we have developed internally strictly adhere to a 4-digit-year requirement. In addition, whenever possible, newly acquired systems have been certified Year 2000 ready before purchase and are tested prior to acceptance. Where no acceptable alternative exists, we may acquire or continue to use software that is not certified ready. However, we will do so only if we can develop and implement a solution that allows the software to accurately process Year 2000 data, or have determined that any risks presented by its continued use are acceptable or can be mitigated.

## Testing

Planning for the testing of critical functions across the entire corporation is under way. We expect to conduct enterprise integration testing through September 1999, with some systems available for external party testing in the second half of 1998.

Because internal testing encompasses only a part of the readiness effort, we believe industry-wide coordination and testing is crucial. We will participate in industry tests sponsored by the Mortgage Bankers Association, the Securities Industry Association and the Bond Market Association beginning in the second half of 1998.

## External Party Testing

We have inventoried our external party dependencies, and will use a triage methodology to determine testing requirements. That is, our highest-risk dependencies will undergo the most rigorous tests, with less detailed testing scenarios for lesser-risk dependencies. For example, we will use customized testing of high-risk processes for a limited number of our high-risk dependencies. For other external parties, we will rely on less resource-intensive forms of assurance, such as successful industry tests or certification.

High volume mortgage originators, service providers and securities dealers that support issuance and payment of our securities are our mission-critical external parties. To use our resources most efficiently, we are concentrating our Year 2000 readiness efforts on our top primary and financial market customers and utilities that are most critical to our success. We will

### Readiness for Seller/Service Providers

To ensure that we can provide a high level of uninterrupted service, we need our primary market external parties to be Year 2000 ready by December 31, 1998. Being ready early provides everyone with a full year to test critical systems and linkages, so we all can be confident that the integrity of the mortgage finance system is unaffected by the Year 2000 rollover.

To help us realize this goal, we have asked Seller/Service Providers to

- Review, reprogram or replace, if necessary, key systems and processes that support their ability to meet our *Seller/Service Provider Guides* and other Purchase Document provisions for delivering timely and accurate data
- Test key internal systems and processes that support their ability to meet the provisions of our *Guides* and other Purchase Documents
- Install and test our Year 2000 software and confirm that it works properly with their key internal systems, processes and relevant interfaces
- Identify key trading partners that support their ability to meet our *Guide* and other Purchase Document provisions and confirm that key trading partners can support their Year 2000 readiness
- Establish controls to identify processing or data errors
- Develop business contingency plans for processing or data errors

conduct on-site reviews of some external party processes, in which we will review specific details of their plans and progress.

In addition, we also plan less intensive desk-top and on-site reviews of Year 2000 plans and progress for a wider range of external parties. These reviews will include mortgage sellers, servicers, service bureaus and financial market customers that are selected based on our overall Year 2000 risk exposure presented by these entities. We have completed our assessment of our Year 2000 risk exposure with mortgage sellers, servicers and multifamily parties. We will complete a risk assessment of our financial market trading partners by June 30, 1998.

External parties will be contacted with testing expectations, requirements, timelines and information regarding appropriate venues. The specific method we will use to assess readiness will vary depending on the level of risk an external party presents. We will ask some external parties to participate in on-site reviews and process tests, while other external parties partners will verify their readiness through alternate testing venues, such as industry tests sponsored by the Mortgage Bankers Association, the Securities Industry Association or the Bond Market Association.

## **Software**

We provide the following software products\* to our single-family trading partners, including

Early Indicator<sup>SM</sup>

GoldWorks<sup>\*</sup>

Loan Prospector<sup>\*\*\*</sup>

MIDANET<sup>\*</sup> for the PC

Workout Prospector<sup>\*</sup>

Gold Cash Xtra<sup>\*</sup>

Gold Connection<sup>\*</sup>

Gold Measure<sup>\*</sup> Worksheet

Investor Account Manager

Servicer Performance Manager<sup>SM</sup>

Workout Manager

Year 2000 versions of Freddie Mac-developed software will be distributed by the third quarter of 1998. You'll find the release schedule in our Guide Bulletin 98-1.

The Multifamily Servicing Software (MFSS) we supply to our multifamily customers is the Year 2000 version.

## **Contingency Planning**

Our Year 2000 Program Office is currently defining the content required for critical process contingency plans. Business areas and critical process owners will integrate these requirements into their planning, testing and communications with our critical trading partners. Currently, we expect to have critical process contingency plans identified by the end of the second quarter 1998, with implementation continuing through 1999.

Our contingency plans will include trigger dates for migration to alternate suppliers, vendors or trading partners, if necessary. In addition, they may include limited assistance to help some trading partners become ready. However, with limited exceptions, we currently do not expect to review or approve external parties' Year 2000 plans or to provide consulting services.

## **Communications**

We are advising customers and trading partners of our Year 2000 readiness status through Bulletin 98-1 and subsequent bulletins, this readiness statement, newsletters and other communications. The Multifamily Guide Bulletin M98-2 was released on March 31, 1998. Information concerning our Year 2000 readiness is also available through our web page at [www.freddiemac.com](http://www.freddiemac.com), (800) FREDDIE and Investor Inquiry at (800) 336-3672.

# Bulletin

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NUMBER: 98-1

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TO: ALL FREDDIE MAC SELLERS AND SERVICERS

January 30, 1998

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**Freddie  
Mac**

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## **SUBJECT**

We're announcing our Year 2000 Readiness requirements for Seller Servicers.

As we've told you in various Seller and Servicer newsletters during the past year, industry consultants and participants who've been active in Year 2000 planning recommend that systems be modified by December 31, 1998, to accurately process the century rollover that's now less than two years away. In addition, financial services industry regulators are requiring companies to be ready by the end of this year.

Freddie Mac supports this industry-endorsed target as part of our comprehensive Year 2000 Readiness planning. We're requiring you to be prepared for the century rollover by year-end 1998 too, so you'll have a full calendar year to monitor and evaluate the performance of your systems and business processes, and to test your interfaces with your business partners.

## **EFFECTIVE DATE**

You must

- Make significant progress during 1998 toward Year 2000 Readiness
- Be Year 2000-ready by December 31, 1998

We'll be distributing a form to you next quarter that you must complete and submit to us by January 31, 1999, to confirm that our Year 2000 Readiness requirements have been met.

## **WHY WE'RE MAKING THESE CHANGES**

Year 2000 Readiness is a challenge that everyone in the mortgage finance industry must overcome. We're all dependent on having systems and controls in place that correctly handle the century rollover to transact business before, during and after the Year 2000. The implications of not [Page : 2] being prepared for this watershed event are wide-ranging and potentially severe for all of us.

You've probably already begun to safeguard your business by making appropriate changes for the Year 2000. At Freddie Mac, continuity of our business processes through the century rollover is certainly one of our top priorities, and we've made great progress toward being prepared for the Year 2000 by year-end 1998. We've already begun comprehensive testing of some of our systems. As you'll see in Exhibit A, Year 2000 versions of Freddie Mac software that we distribute directly to you will be available free of charge as early as this quarter, and no later than the third quarter of this year.

To help the industry prepare for the century rollover, Freddie Mac is actively participating in the Mortgage Bankers Association's (MBA's) Year 2000 Inter-Industry Work Group, whose membership includes a cross-section of lenders, third-party vendors, government agencies, investors and others. This work group collects general Year 2000 information, identifies risks specific to the industry, shares ideas on topics such as effective testing plans and contingencies, and serves as an industry resource on Year 2000 planning.

We believe that our industry's interdependence makes a united approach to the Year 2000 essential to our mutual success. Industrywide Year 2000 testing, which the MBA is working toward for next year, is an example of integrated planning that will benefit everyone.

By completing your testing of internal business processes and systems by the end of 1998, you can be sure that your processing is accurate when you test your interfaces with us and third-party service providers in 1999. You must also confirm that these third parties can support your Year 2000 Readiness by year-end 1998. If problems occur during interface testing next year, you'll be able to identify and resolve them more quickly because you'll know they're related to your external interfaces.

## **HOW THESE CHANGES AFFECT YOU**

We expect that, as of January 1, 2000, you'll continue to deliver Mortgages to us and service Mortgages for us with the same standards of integrity and efficiency that exist today. All data processing systems you use to sell us loans or service them for us must produce accurate results before, during and after the Year 2000. You need to ensure that any systems you use to administer loans -- such as custodial account administration, disbursement, document custodial tracking, insurance payment, tax payment escrow analysis and foreclosure tracking systems, etc. -- are Year 2000-ready. You're also responsible for the Year 2000 Readiness of all selling and servicing systems for which you depend on third parties.

You must be "ready" for the Year 2000 by December 31, 1998. At a minimum, ready means that you've

- Reviewed and reprogrammed or replaced, as necessary, all of the key systems and processes that support your ability to meet our Single-Family Seller/Servicer Guide (Guide) and other Purchase Document requirements of delivering timely and accurate data
- Tested all of the key internal systems and processes that support your ability to meet our Guide and other Purchase Document requirements of delivering timely and accurate data, and achieved accurate results
- Installed and tested all of our Year 2000 software and confirmed that it works properly with all of your key internal systems and processes and relevant external interfaces (see Exhibit A for more information about our software)

- Identified all of the key trading partners that support your ability to meet our Guide and other Purchase Document requirements and confirmed that they can support your Year 2000 Readiness
- Put adequate controls in place to identify processing or data errors
- Developed business contingency plans for processing or data errors

Last fall, we revised Form 16SF, Annual Eligibility Certification Report, which you need to submit to us within 90 days of your fiscal year-end. On Form 16SF, we've asked you to indicate whether you "have a plan for identifying, renovating, testing and implementing solutions for Year 2000 systems processing by December 31, 1998." We'll use the responses we receive this year as one of several means to assess your progress toward Year 2000 Readiness by December 31, 1998. As part of our plan to ensure that all Freddie Mac Seller Servicers and their trading partners are making progress during 1998 and are ready by year-end, we may require you to

- Submit your Year 2000 development and testing plans to us for review
- Participate in audits of your organization and your trading partners to verify compliance with our requirements
- Participate in Freddie Mac integration tests so we can be sure that you've updated your systems correctly

We recognize that some of your industry trading partners may not be able to support your Year 2000 Readiness by the end of this year, and their preparations are outside of your control. You need to monitor their progress and develop contingency plans, as appropriate. If you're dependent on a trading partner that's not prepared by year-end, and you're able to demonstrate that our Year 2000 Readiness requirements have otherwise been met, we'll assess the specific circumstances and consider alternatives in those instances.

Becoming Year 2000-ready requires you to invest a lot of resources. You need to consider some alternatives to modifying your systems if you'll be unable to meet our Year 2000 Readiness requirements by December 31, 1998. Some options that may help you include

- Contracting with a Year 2000-ready Servicer to perform subservicing
- Transferring your servicing to Year 2000-ready Servicers, and delivering your loans servicing released to us through Gold Cash Xtra (R) or through a concurrent transfer of servicing

Whether you're considering these or other alternatives, or seeking solutions that allow you to continue business as usual into the next millennium, we want to work with you.

We realize you may have questions about our Year 2000 requirements. Please see Exhibit B for answers to questions we're frequently asked about planning for the century rollover. We also urge you to visit our new Year 2000 section on GoldWorks (R) and Freddie Mac's home page on the Internet (<http://www.freddie-mac.com>). Various news and business media, Year 2000-specific publications and seminars being offered across the country are also great sources of information on preparing for the century rollover. We recommend that you review some of the other Year 2000-related sites on the Internet. These sites can help you stay on top of Year 2000 issues, learn more about what other companies are doing and perhaps find solutions to

some of your own Year 2000 challenges. If you don't find the answers to your questions, we encourage you to call (800) FREDDIE.

## **REVISIONS TO THE SINGLE-FAMILY SELLER/SERVICER GUIDE**

We've added Guide Section 4.15, revised Section 5.2 and updated the Glossary to incorporate the changes announced in this bulletin. At the end of this bulletin, you'll find replacement pages for Volume 1 and Volume 2 of the Guide. We've highlighted the changes on these pages by placing an arrow in the margin and double underscoring the revised text. Please follow the instructions on the pages before the Volume 1 and Volume 2 replacement pages so that you can update your Guide correctly.

## **CONCLUSION**

Only by working together can the mortgage finance industry proceed smoothly into the next millennium. We believe that our consistency with industry guidelines for Year 2000 planning will help strengthen the links between us and contribute to a more effective transition for mortgage lending in the Year 2000 and beyond.

The task before us is a large one. By addressing and resolving Year 2000 issues as early as possible, however, each of us can help minimize disruptions to the mortgage finance system we've built together.

Throughout this year and next, we'll continue to provide you with information through various communications. We'll share with you what we learn from the ongoing MBA-sponsored inter-industry work group discussions about Year 2000 resource planning, successful practices and testing methodologies, contingency and continuity planning, and other issues. If you have any questions about what we're doing to prepare for the Year 2000, or our requirements for Seller Servicers, please visit our Year 2000 Web site on GoldWorks or the Internet, which we'll be updating regularly with the latest news and information. If you still have questions, please call (800) FREDDIE.

Sincerely,

David Andrukonis  
SVP and General Manager  
Seller Division

Paul T. Peterson  
Senior Vice President  
Servicer Division



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# Exhibit A

## Freddie Mac Year 2000 Software

While you do need to ensure that your own software and hardware are Year 2000-ready, you won't have to make any changes to your current systems to install and use our Year 2000 software. The table below identifies when Year 2000 versions of our software will be available. You'll receive more specific information about the changes in each of our software products when these versions are ready to be installed or downloaded from GoldWorks (R). Your use of the updated versions of our software is subject to applicable license agreements and written instructions by Freddie Mac.

Product	Year 2000 Ready	Year 2000 Ready	Year 2000 Ready
EarlyIndicator <sup>SM</sup>		✓	
Gold Cash Xtra <sup>®</sup>	Already Updated for Year 2000		
Gold Connection <sup>®</sup>			✓
Gold Measure <sup>®</sup> Worksheet	✓		
GoldWorks <sup>®</sup>	Already Updated for Year 2000		
Investor Accounting Manager		✓	
Loan Prospector <sup>®</sup>			
MIDANET <sup>®</sup>	✓		
Servicer Performance Profiles	✓		
Workout Manager <sup>SM</sup>	Already Updated for Year 2000		
Workout Prospector <sup>®</sup>	Already Updated for Year 2000		

[\*] Check with your loan origination software (LOS) vendor to determine the earliest date that Loan Prospector Year 2000 upgrades will be available to you.

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# Exhibit B

## Questions and Answers

Subject: Year 2000 Readiness Requirements

Bulletin 98-1

Dated: January 30, 1998

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For the past year or so, we've received a lot of questions about the Year 2000 and the effect it will have on your date-sensitive systems and processes. The list below includes answers to the questions about the Year 2000 we hear most frequently. If you have a question that's not answered below, we suggest you look on our new Year 2000 site on GoldWorks (R) or the Internet at <http://www.freddiemac.com>. If you still need more information, please call (800) FREDDIE, and we'll do everything we can to help you.

**Q1** Does Freddie Mac intend to have all of its systems ready for the Year 2000?

**A1** By December 31, 1998, we plan to have all of our key systems ready for the Year 2000 rollover. This will give us a full year to test our systems and make sure that everything will run smoothly in the new millennium. See Exhibit A for the availability of Year 2000 software from Freddie Mac.

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**Q2** What methodology is Freddie Mac using for the Year 2000?

**A2** Freddie Mac is using a fixed "windowing" methodology for Year 2000 systems changes. That means we're establishing two windows to logically determine the century. We're programming our systems to interpret all two-digit numbers 00 through and including 50 as a year in the 21st century (2000), and all numbers 51 through and including 99 in the 20th century (1900). For example, our systems will interpret 03 01 35 as March 1, 2035, and 07 09 82 as July 9, 1982.

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**Q3** Is Freddie Mac requiring dates in a two- or four-digit format?

**A3** To give you maximum flexibility, we plan on accepting both two- and four-digit formats from you. You need to verify that information or data sent to us in the two-digit format will result in the appropriate date, as defined by the Freddie Mac "windowing" logic referenced in the answer above. Please note that if you decide to move from a two-digit format to a four-digit format for your own purposes, you'll need to modify your programs that map to our software. We'll distribute mapping instructions for our Year 2000 software when it's available.

See Exhibit A to determine when each type of Freddie Mac software will be ready to accept both two- and four-digit formats. In addition, please note that our investor reporting EDI interface will be ready to receive two- or four-digit year formats beginning in the third quarter of 1998 and our electronic default reporting EDI interface will be ready in the fourth quarter this year.

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**Q4** Will Freddie Mac charge a fee for its Year 2000 software updates?

**A4** No. Freddie Mac will make Year 2000 versions of software we distribute available to you free of charge.

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**Q5** Will LOS vendors charge a fee for Year 2000 upgrades to Loan Prospector?

**A5** Check with your vendor for more specific information regarding the availability and cost of the upgrades.

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## Exhibit B

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**Q6** When will Loan Prospector (R) Year 2000 software be available for testing?

**A6** Freddie Mac is distributing Loan Prospector Year 2000 specifications to loan origination software (LOS) vendors, and customers who have custom loan origination systems, this quarter. We've instructed these vendors to have these upgrades available to you by September 30, 1998, so you can complete your testing by year-end. We expect LOS vendors to include Year 2000 changes as part of their ongoing software release process, so you'll need to check with your vendor to determine the earliest date the software will be available to you.

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**Q7** What "key systems and processes" must be Year 2000-ready by December 31, 1998?

**A7** "Key systems and processes" are any business functions, systems or applications, internally developed or purchased commercially, that you use and are vital to the continuance of a core or a mission-critical business activity of yours related to Freddie Mac. They include all computing systems -- hardware or software -- used by a Seller in connection with the origination and sale of Mortgages to us, or used by a Servicer in connection with the servicing of Mortgages for us, to process, store, transmit or receive data and funds.

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**Q8** Is Freddie Mac recommending a standard approach to Year 2000 planning and testing?

**A8** No, a standard approach isn't appropriate because every business operates differently. While we can't recommend one approach or one place that you're likely to find answers to all your Year 2000 planning and testing questions, the Web site maintained by the Federal Financial Institutions Examination Council (FFIEC) offers safety and soundness guidelines that you may find helpful. You can visit that site at <http://www.ffiec.gov>.

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**Q9** Is Freddie Mac requiring Seller Servicers to test the Year 2000 Readiness of their third-party vendors by December 31, 1998?

**A9** No, but you need to confirm that they can support your Year 2000 Readiness by year-end. We expect third-party testing to occur in 1999, including industrywide MBA-sponsored testing that may involve some of your third parties. Aside from testing, you must develop contingency plans this year in the event that your third parties are not ready.

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**Q10** What business processes may be affected by the Year 2000?

**A10** Almost any business process that relies upon output from a system may be affected by the century rollover. For example, reports that are available now in a particular format may not look the same to a user once a system has been reprogrammed or replaced. Or that report may not be available within the same time frame as before the change because of increased processing time, leading to changes in how you act upon the information in that report.

There are many examples like this. The important thing to remember is that changes to any of your systems may have a ripple effect on how you transact your business, and you need to assess those effects, even if a Year 2000 system change produces accurate data.

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## Exhibit B

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**Q11** How can I get more Freddie Mac Year 2000 planning information?

**A11** You can

- Visit the Year 2000 site on our Internet home page at <http://www.freddiemac.com>, or
- Look for Year 2000 information posted on GoldWorks, Freddie Mac's electronic network for the industry, or
- Call our (800) FREDDIE helpline or
- Send your written questions to the following special address just for Year 2000 inquiries:

Freddie Mac  
8250 Jones Branch Drive, MS Y2K  
McLean, VA 22102-9751



## **Exhibit B**

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# Bulletin

Number: 98-3

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TO: All Freddie Mac Sellers and Servicers

June 1, 1998

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## SUBJECT

In this bulletin, we are providing additional information about Year 2000 Readiness regarding:

- Seller Servicer testing
- Our Year 2000 Readiness confirmation
- The use of existing alternative strategies to meet our requirements

We are also providing changes to our Transfer of Servicing and Servicing Agent requirements for the century date change and to support existing business needs. We have revised the following:

- Form 479A, Single-Family Servicing Agent Certification
- Form 960, Agreement for Concurrent Transfer of Servicing of Single-Family Mortgages
- Form 981, Agreement for Subsequent Transfer of Servicing of Single-Family Mortgages

## EFFECTIVE DATE

Revisions to Forms 479A, 960 and 981 are effective August 1, 1998.

## WHY WE'RE MAKING THESE CHANGES

Bulletin 98-1, dated January 30, 1998, announced our requirements for being Year 2000-ready to give you sufficient time to develop business plans that meet your needs as well as ours. In this bulletin we provide additional information to incorporate into your Year 2000 planning. This will promote business continuity through the Year 2000 with minimal disruptions to mortgage finance transactions.

We plan to meet the Year 2000 challenge. In return we are counting on you to

- Take the necessary actions to prepare yourself for the century date change, and
- Have alternative strategies and plans in place that avert problems for us and your other business partners

## HOW THESE CHANGES WILL AFFECT YOU

### Seller/Servicer testing

In early 1999, we will provide all interested Seller Servicers an opportunity to test their interfaces with us. We will not require you to participate in this testing. Our plans include providing a uniform set of transaction sets, test cases, date scenarios and testing windows to offer an efficient and effective testing procedure for our customers.

As we mentioned in Bulletin 98-1, we have been a participant in and contributor to the Mortgage Bankers Association of America's (MBA) Year 2000 Inter-Industry Work Group. This group of diverse industry participants worked diligently to identify the industry's business-critical functions. Based on this group's analysis, we are planning to offer testing for the following business processes and corresponding Freddie Mac products.

Business Process	Freddie Mac Software
Automated Underwriting	Loan Prospector <sup>®</sup>
Commitment	Gold Connection <sup>®</sup>
Loan Delivery	MIDANET <sup>®</sup> and Gold Connection
Investor Reporting	MIDANET and Investor Accounting Manager <sup>SM</sup>
Delinquency Default Reporting	MIDANET

The MBA is planning to facilitate industry-wide testing next year to address these and other business-critical transactions. The testing will be open to any interested mortgage industry participant. We support the MBA sponsored industry testing and encourage you to actively participate. We believe this industry-wide testing supports our mutual objectives for Seller Servicer testing and plan to participate fully. You will receive additional information from us and the MBA as it becomes available.

### **Our Year 2000 Readiness confirmation**

By January 31, 1999, you must submit to us a Year 2000 Readiness confirmation signed by your chief executive officer (CEO) or an officer designated by your CEO. We have incorporated this requirement in Section 4.16 of the *Single-Family Seller-Servicer Guide* (Guide). We will mail the confirmation form to your CEO in the fourth quarter of this year and have included a sample of it in the Guide as Exhibit 88, which we are enclosing with this bulletin.

### **Alternatives to becoming Year 2000-ready**

As defined in the Guide, one of our requirements for attaining Year 2000 Readiness is that you review and reprogram, or replace, all key internal systems and processes that are required to support your compliance with the requirements of the Purchase Documents. There are ways other than replacing hardware and reprogramming software to meet this requirement. If necessary, you should consider a business strategy that is consistent with your organization's goals and current circumstances. Alternatives to achieving Year 2000 Readiness for key systems and processes include temporary and permanent business solutions. You may choose any or all of the following options with respect to your current and future selling and servicing business with us.

- Execute Concurrent or Subsequent Transfers of Servicing
- Arrange for sub-servicing
- Retain a service bureau or third-party vendor
- Continue to Service Mortgages for us, and discontinue selling Mortgages to us

Any Transferee Servicer, Servicing Agent or third-party vendor that you choose must have attained Year 2000 Readiness.

Of course, these alternatives exist today, and you may consider them at any time depending on your business strategy and objectives. Many of these options take time to coordinate and implement. We are calling your attention to these alternatives now so that you can plan accordingly. Regardless of which alternative you choose, you must be Year 2000-ready by December 31, 1998.

You may also decide not to become ready and voluntarily terminate your selling and servicing relationship with us.

### **Revised Transfer of Servicing and Servicing Agent requirements and forms**

If you are considering a Transfer of Servicing or sub-servicing arrangement with a Servicing Agent, you should incorporate our Year 2000 Readiness requirements in your evaluation of potential Transferees or Servicing Agents. We will also consider the Transferee Servicer's or Servicing Agent's Year 2000 Readiness in reviewing your request for a Transfer of Servicing or use of a Servicing Agent. We have revised our Transfer of Servicing and Servicing Agent forms, effective August 1, 1998, to reflect this requirement and to bring them up-to-date with today's business practices.

## REVISIONS TO THE *SINGLE-FAMILY SELLER SERVICER GUIDE*

We are including the following new or updated pages to the Guide:

- Revisions to Chapters 4, 54, 56 and 73
- Exhibit 88, Example of Year 2000 Readiness Confirmation
- Revised Forms 479A, 960 and 981

We've attached camera-ready copies of Forms 479A, 960 and 981 so that you may print your own supply.

We have highlighted the changes on each Guide page by placing arrows in the margin and double underlining the revised text. Please follow the instructions on the pages preceding the Volume 1 and Volume 2 replacement pages so that you can update your Guide correctly.

## CONCLUSION

While the challenges posed by the Year 2000 are formidable, your continuing attention to this issue will help minimize disruption in conducting business before, during and after the century date change. By making Year 2000 Readiness a top priority, you will help the mortgage finance industry proceed smoothly into the next millennium. If you have any questions about this bulletin, please call (800) FREDDIE.

Sincerely,

Paul T. Peterson  
Senior Vice President  
Servicer Division

David Andrukonis  
SVP and General Manager  
Seller Division